Strategic Analysis of Location: Remain or Relocate?

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ABSTRACT

Organizations are continuously looking at options to cut costs and optimally compete with their competitors, remain close to suppliers, while operating in the country/place of consumers. While it’s always a challenge to meet the needs of all factors, multinational corporations must strategically evaluate the key decision of location. Where to operate? Once we’re operating, do we continue to operate here or relocate? These such questions are among the many discussed on a regular basis within key executives. Often what’s overlooked is the key element of consumer trust and emotions pertaining to a company operating in the home country/state where products and/or services are consumed. Being proactive with location will end up enhancing the respect among consumers and profitability. This article aims to highlight some key strategic factors an organization should consider when locating or determining if relocation is an option, while conducting an external strategic analysis.

NATURE’S DISASTERS

Ever consider the natural environmental factors beyond one's control on operations? Movement and/or establishment (location/relocation) is one logistical strategic decision organizations face, ranging from their establishment to date. Numerous factors affect the decision to establish or relocate the company. Maximizing profits is most often the main reason a business locates (relocates). Factors such as, real estate/lease prices, wages, proximity to suppliers, and government regulations all play a role in the decision. One key factor for consideration is nature's disasters (historically), which may have either a direct or indirect impact on commerce. Geographically, natural threats vary. A discussion to follow highlights some of the most disastrous natural catastrophes to date.

Time Magazine (2011) noted some of the most devastating disasters that have taken place, recently. Natural environmental factors, such as Japan's Tsunami caused the country to be at a stand still, affecting commerce for months in 2011. In general, Tsunamis are a killer! Reports have indicated the Tsunami hitting Sri Lanka killed over 35,000; while in Indonesia killing over 167,000! Russia's wildfires were the cause of 50,000 dead. In Port-Au-Prince (2010), a devastating earthquake caused the death of 200,000 and left 1 million homeless. In Iceland (2010) a volcano eruption disrupted airlines for about one week in Europe. In Guatemala City (2007) the foundation collapsed, causing a 30-story hole in the ground, suctioning homes. In the Sudan (2004), Haboobs, which are massive dust storms known to kill livestock, disrupt communication and travel for days, spanning for miles from the epic center. These are just among the few disaster affecting certain areas across the globe.

Companies located in Japan have significantly been impacted by nature's catastrophic happenings. While it is never easy to predict business location based on nature's offerings; it’s important to have plans in place should such an even occur. It's important to note that when citizens look to identify a location to make their permanent place of residence, much the same can happen with companies. It's not doubt, historically, the west coast of the United States (California, specifically) has predictable, seasonal weather (winter/summer) as compared to the mid-west and east coast, for example. Logistically, companies are able to forecast transportation logistics, etc. as such.

Wage Increases

One reason why companies relocate abroad is due to lower wages. However, things have been changing. According to the Economist (May/2011), Factory wages are increasing across many countries. China's wages have increased 69% between 2005 and 2010! An estimated 17% wage increase a year has taken place. However, wages in countries, such as United States have been slow to decreasing. World currencies have been fluctuating; the Japanese Yen has been modestly appreciation in comparison to the US dollar. While it's unknown regarding specific reasons, but
companies have been relocating back to the United States. Companies, such as Caterpillar has shifted some of its business back to USA. NCR has also moved some operations back to the United States along with Wham-O, have moves some divisions back from Mexico and China (The Economist, 2011, May).

**Movement Challenges**

Establishing in a location also forms business relationships. Given this, relocating would hinder those relationships and may contribute to increased costs. Two such examples, which actually may warrant a location near suppliers is electronic and watch (timepiece) manufacturers. It may be financially and logistically optimal for companies, such as Panasonic and Sony or Swiss Watch manufacturers to be situated near/in Switzerland. This would allow closer proximity with key suppliers and competitors as well. Additionally, it may reduce store and logistical costs. A stigma often is associated with business/manufacturers; for example, it's almost an industry expectation that a Swiss timepiece be manufactured and located in Switzerland! Much alike some consumers may prefer to have their Italian designer clothing actually made in Italy! Or, Mercedes-Benz automobile manufactured in Germany. Should distance among the supply chain of such companies be far apart, natural disaster threats simply may increase. The salient question remains, should a company relocate if it's a national company? If it has relocated due to factors, such as leases, supply chain, water/utility costs, and wages, when/where is it appropriate to relocate back to home country of origin? What influence may it have on image and consumer confidence levels in the products and services?

**Environmental Factors**

Company relocation efforts involve employees and proximity to the workplace. Depending on the location/country, may posses a challenge with respect to housing. According to a report in Wall Street Journal, countries (even USA), such as China have been experiencing declining property values. Squarely, the global world, which is so heavily reliant on China will feel the pinch as a result of the real estate deflation. More specifically, global economies, such as Latin America, African and the United States feel threatened due to reliance on China for raw materials and sales! With the increase in unemployment and crash of housing across much of the United States, American companies depend on China and other economies on sales (WSJ, June 9, 2011).

According to a report by the New York Times, India, meanwhile has been experiencing tremendous growth in select cities, such as Gurgaon. The city, in two decades, has witnessed 26 shopping malls, seven golf courses, luxurious car dealerships, such as Mercedes-Benz and apartment towers, among other. Unfortunately, with the growth lies blight and city limitations, such as functioning sewer/drainage system; reliable utilities (water & electricity), sufficient paved roads and sidewalks, etc. Public transportation is virtually extinct, while streets are infested with waster/garbage thrown in sides streets and on lots (NY Times, June 9, 2011). What does all this mean for such a newly developed, booming city that's perceived as a rising-star for India? Has the exponential growth in commerce impaired the ability for public services to maintain pace? The investments of national and international business in Gurgaon is just one example of financial opportunities; however, will the lack of reliable utilities and roadways/public transportation cloud the glamor?

**Sample Locations**

Of recent, Thailand, China, India, and Mexico have been among select countries American (USA) companies have either relocated to entirely or partially. Information technology-type of positions/departments were first to relocate to India among many businesses in the United States. Hershey chocolate company closed down an Oakdale, CA manufacturing site to relocate to Monterrey, Mexico. The move is believed to be a labor cost-saving decision. While notably labor costs are lower in Mexico than in the United States; however, how much of a savings versus loss will result from the move, given a loss of consumer trust? What effects would environmental/utility conditions have on food manufacturing in Mexico versus in the United States, where some cities in Mexico's tap water has been known not to be potable (drinkable)?

According to an Economic focus report (The Economist, 2011, July), some of the once desired economies might be experiencing some challenges. Taiwan, for examples contains an approximate 1.7% inflation rate, compared to 20% in Vietnam, Venezuela, and Argentina, according to the study. Food prices have been attributed to the increase in
inflation rates. The study indicates economies, such as Russia's, Mexico, Pakistan, and Hungary are among the more economically stabilized from inflation. Hong Kong, India, Turkey, and Argentina are among the most likely to encounter an overheating economy due to inflation (The Economist, 2011, July).

**Economic Powerhouse: China**

China is slowly emerging as a global giant with respect to influence and presence. Countries, such as Canada, Mexico, United States, Italy, and Australia remain concerned about China's global presence. England (London) has witnessed an increased level of financial presence from China as well, with investments in London's Energy and office development, among other, developments (The Economist, 2011, July). Much of the products, as we know, are made in China. This is largely due in part to reduced production costs. The salient question that may arise as a result of China's expansion into other countries, economically, is the impact on labor and general supply chain costs. China has been traditionally viewed as an inexpensive location for labor; much like Mexico, while India has been viewed as an inexpensive location for human-technical support services, due to nationals' command of the English language.

**Tangible/Intangible Threats**

While governmental and political, natural environment disasters, and utilities/transportation all have a direct impact on business, an in-tangible factor, consumer confidence in a product/service is one that's not often measured in terms of profit. An in-tangible, consumer trust is often at-risk when a business relocates abroad. More specifically, a generalization, should a poll be actually taken, is that general public would oppose relocation due to loss of jobs.

As a result, more companies of recent have opted to forgo relocation and have indeed advertised the option to do so, as a marketing tactic to gain the respect of consumers. With unemployment rates averaging around 9.6%, nationally (United States-2010), movement/relocation will not be viewed too favorably by nationals. In fact, a survey conducted revealed 81% of people would think better of a company remaining in the United States (Times News). An article in Times News (2010) reported Allstate Insurance Company boasted the opening of a $12 million-dollar call center facility in San Antonio, Texas, employing some 500-plus employees. The company had passed up opportunities to locate the facility in India or the Philippines.

**SYNTHESIS**

Relocation efforts are almost always enticed as a result of an increase in potential profits. Conventionally, corporations have utilized profit benchmarks as a reason to relocate. However, absent in the literature is the discussions revolving around factors (tangible/in-tangible), such as the natural and regional environments and offerings. For example, relocation or location to countries in Asia may challenge supply chains and productivity, given less favorable and often unpredictable weather conditions, as opposed to the United States (select markets). However, this is not to say select regions/cities in the United States have not gone without natural disasters/hurricanes, etc., either.

However, it's important from the standpoint of logistics/supply chain and proximity to local consumers to operate in local markets, when possible. What corporations should consider is the 'big picture,' and not rely solely on financial gains, which may be short-term and shrink with time. This can be the case with loss of confidence by consumers in the market where a company relocated from.

**SUMMATION**

Strategic factors to consider when locating/relocating: consider natural disaster, consumer trust, utilities and housing costs, and transportation for employees to get to work, coupled with education! Countries, such as China, Mexico, and India continue to be the sought-after countries for location; however, challenges with respect to external strategic factors exist. Threats associated with the aforementioned factors exit in each of the respective countries. The salient consideration is: will the benefits of relocation/location abroad outweigh the threats/weaknesses associated with the move? This remains to be answered, pending both short and long-term analysis.
Consumer/cultural trust in a brand/product/service can sometimes be difficult to forecast. What remains has a safe assumption is representation in countries of business. However, closure and relocation outside of a home country of a business, presents challenges that may not be worth the move. The purpose of this article was to identify a sample of potential challenges for location/relocation, specifically for strategic analysis when an organization is considering physical movement/relocation. Specific decisions lie among each respective organization. The recommendation is for organizations to carefully conduct an external environmental strategic analysis and consider the aforementioned discussions to better determine an optimal, yet consumer-sensitive decision.

REFERENCES